



INDONESIA: TRADE AND INVESTMENT HIGHLIGHTS JUNE 2005

SUMMARY:

- The Central Statistic Agency (BPS) announced on July 1 that Indonesian exports for the first five months of 2005 grew 30.7 percent compared to the same period in 2004.
- Foreign investment approvals reached USD 5.47 billion from January to May, a 95 percent increase year-on-year (YoY).
- Indonesia's textile exports to the U.S. reached USD 477 million for January-February 2005, a 7 percent increase YoY.
- The Government of Indonesia (GOI) hosted a G-33 ministerial meeting June 11-12 to discuss treatment of agriculture products in the Doha Round WTO negotiations.
- National motorcycle production grew to 2.07 million units from January to May 2005, a 33 percent increase YoY.
- The Ministry of Agriculture (MOA) released an Agriculture Blueprint for 2005-2009.
- The Ministry of Trade (MOT) said it will extend a salt import ban until December 2005, and the MOA implemented a ban on U.S. beef and beef product imports effective June 30, 2005 due to a second confirmed case of Bovine Spongiform Encephalopathy (BSE) in the U.S.
- Press reports indicate the GOI may lift a ban on used personal computer imports.
- The MOT deregulated exports and imports of several products in April 2005.
- Indonesia's largest telecommunication operator, state-owned PT Telkom, appointed a new slate of directors for 2005-2010.
- Senior Chinese officials reportedly told the GOI that China will strengthen bilateral trade and investment with Indonesia.

Strong Export Growth Continues

The BPS announced on July 1 that Indonesia's exports reached USD 33.8 billion from January to May 2005, an increase of 30.8 percent year-on-year (YoY). Non-oil and gas exports accounted for USD 26.6 billion of the five month total, a YoY increase of 34 percent. Industrial exports, which account for 66 percent of total exports, expanded 27.6 percent YoY to USD 22.5 billion between January and May. Meanwhile, January to May 2005 imports grew to USD 23.6 billion, a 37.2 percent increase YoY. Overall, Indonesia's trade surplus reached USD 10.3 billion for the first five months of 2005, an increase of 14.5 percent YoY.

Tabel 1: Indonesian Trade Performance

January - May 2005

In USD billion	Jan - May 2004	Jan - May 2005	Percent Increase 2005/2004
Export	25.9	33.8	30.7
Oil and Gas	6.1	7.3	20.2
Non-Oil and Gas	19.8	26.5	34.0
Import	17.1	23.5	37.2
Oil and Gas	4.1	6.5	56.0
Non-Oil and Gas	13.0	17.0	31.1
Balance of Trade	8.8	10.3	14.5

Source : Central Statistic Agency (BPS)

According to the Investment Coordinating Board (BKPM), foreign investment approvals rose to USD 5.47 billion from January through May 2005, an increase of 95 percent from USD 2.81 billion for the same period in 2004. Meanwhile, domestic investment approvals for the first five months of 2005 also rose to IDR 20.89 trillion (USD 2.2 billion) from IDR 18.47 trillion (USD 1.9 billion), a 13 percent increase YoY. The chemical, pharmaceutical, metal, machinery, electrical, gas and food industries attracted the greatest investor interest. The BKPM does not release data on actual investment implementation.

Indonesian Textile Exports to U.S. Increases

The Indonesian Textile Association (API) announced on June 3 that textile and garment exports to the U.S. reached USD 477 million for January and February 2005, an increase of 7 percent YoY, although total volume of textile exports was down by 3.89 percent. API expressed optimism that Indonesia will meet its target of USD 8 billion in textile and garment exports for 2005, the first year following the conclusion of the Multi Fiber Agreement. API remains concerned, however, about the impact of surging Chinese textile and garment imports into Indonesia, as well as possible illegal transshipments through Indonesia following the application of safeguards on Chinese products.

Indonesia Hosts June 11-12 G-33 Meeting

The MOT hosted a G-33 Ministerial meeting June 11-12 in Jakarta to coordinate the strategy and positions of G-33 countries in preparation for the WTO sixth ministerial meeting in Hong Kong in December 2005. G-33 members discussed a range of issues at the Jakarta meeting related to WTO agriculture negotiations, including treatment of Special Products (SP) and Special Safeguard Mechanisms (SSM), as well as G-33 strategy and targets. The G-33 agreed that the SP and SSM concepts are crucial to obtaining special and differential treatment protecting small farmers in developing countries. They resolved to finalize a common position during the a July 2005 G-33 Ministerial Meeting.

Motorcycle Production Surges

The Indonesian Motorcycle Industry Association (AISI) announced on June 22 that national motorcycle production grew to 2.07 million units for the January-May 2005 period, an increase of 33.4 percent YoY. Honda remains the dominant player in Indonesia's motorcycle market.

Table 2: Indonesian Motorcycle Production

Jan - May 2005

Brand Name	Unit (thousands)
Honda	1,132
Yamaha	446
Suzuki	451
Others	46
Total	2,075

GOI Releases Agriculture Blueprint

On May 12, the MOA released a newly formulated 2005-2009 agriculture development plan. The blueprint calls for improvements in food security, agro-business development, and farmer's welfare. The GOI is targeting 3.3 percent annual growth in Indonesia's agriculture sector and expects it to provide 41.9 million jobs by 2006. The MOA also estimated it will need roughly Rp 3.5 trillion (USD 368 million) to support the recovery of the agricultural sector in Aceh and North Sumatra.

GOI Extends Ban on Salt Imports

Minister of Trade Mari Pangestu announced on June 15 that the GOI will continue to ban salt imports until December 2005 to protect local suppliers and prices. She expressed optimism that local salt producers could meet 2005 domestic demand. The MOT first imposed the ban on June 30, 2004 just prior to the salt harvest season, which typically occurs from August to October each year. The MOT's initial plan was to keep the ban in effect one month before and two months after the salt harvest season. The MOT, however, has since used its authority to extend the import ban.

GOI Imposes Import Ban on U.S. Beef and Beef Products

The MOA banned imports of U.S. beef and beef products effective June 30, 2005, following news of a second case of Bovine Spongiform Encephalopathy (BSE or Mad Cow Disease) in the U.S. U.S. beef product imports approved prior to June 30 will still be allowed into Indonesia until August 31. Indonesia implemented a ban on beef imports from the U.S. in 2003 when the U.S. Department of Agriculture announced the first case of BSE in an American cow, but lifted it in May 2004. Since then, Indonesia has imported 4,300 tons of beef products from the U.S., and an estimated 3,000 tons are currently in transit. Indonesia imports beef products from three main sources: Australia, New Zealand and the United States.

Local Investors to Build Flourmills

The BKPM on June 27 approved plans by four investors to invest USD 54.8 million in flourmills with a total combined production capacity of 672,000 tons per year. Indonesia currently has four flourmills with a total production capacity of 4.3 million tons. The Indonesian Flour Producers Association (Aptindo) claims that existing flourmills can produce up to 7.35 million tons of flour annually, more than enough to meet domestic demand of 4.5 million tons per year. Aptindo claims that demand from the new mills will raise the price of imported wheat from Australia which the mills use to make flour. However, most analysts believe that a relatively small increase in Indonesian wheat imports would be unlikely to affect global wheat prices.

GOI to Deregulate the Import of Used PCs

According to press reports, President Susilo Bambang Yudhoyono is considering lifting a GOI ban on imports of used personal computers (PCs) in order to help develop local information technology industries. In December 2003, the Ministry of Trade banned imports of used PCs, saying it would encourage the development of local PC makers and assemblers. The Indonesian Computer Assembling Association (Apkomindo), however, says lifting the import ban will harm the local industry. According to Apkomindo, 70 percent of PCs in Indonesia are locally assembled.

New Indonesian Export-Import Regulations

The MOT published a press release in April 2005 listing several new import and export regulations. MOT actions include:

- Removing restrictions on the export of Tapioca.
- Issuing new regulations making diamond exports and imports subject to a December 2002 U.N. resolution concerning the Kimberly Process Certification Scheme. Under this new regulation, registered exporters and importers may only trade rough diamonds under licenses granted by the Ministry of Trade.

- Lifting restrictions on silver exports. However, the MOT will continue to control silver exports as a means to avoid oversupply on the domestic market.
- Permitting the import of vehicle and spare parts for public transportation. Under revised regulations, designated "general importers" will be permitted to import completely built-up or completely knocked-down public transportation buses and their spare parts.
- Liberalizing imports of used capital goods for civilian aircraft. Indonesia will no longer request a surveyor's certificate of inspection from the loading port or country of origin. However, these products must still pass a Ministry of Transportation airworthiness inspection.

Telkom Appoints New Slate of Directors

Shareholders of PT Telekomunikasi Indonesia (Telkom), Indonesia's most profitable state-owned enterprise, appointed Arwin Rasyid as President Director on June 24, replacing former President Director Kristiono. Telkom is the Indonesia's largest fixed line and wireless operator. Rasyid previously served as Vice President Director at state-owned Bank Negara Indonesia (BNI) and Bank Danamon Indonesia, a leading private bank. Telkom's Board of Director for the period of 2005-2010 is as follows:

- Arwin Rasyid: President Director
- Garuda Sugardo: Chief Operating Officer
- Rinaldi Firmansyah: Director of Finance
- Abdul Haris: Director of Network & Solution
- Arief Yahya: Director of Enterprise & Wholesale
- John Welly: Director of Human Resource Development
- Guntur Siregar: Director of Consumer

China to Strengthen Bilateral Trade with Indonesia

In a June 28 meeting with visiting Coordinating Minister for the Economy Aburizal Bakrie, Chinese Vice Premier Wu Yi reportedly promised to encourage Chinese investors to expand operations in Indonesia. Wu Yi also reportedly expressed hope that the GOI would develop a more favorable investment climate. According to Chinese statistics, Indonesia-China bilateral trade reached USD 13.5 billion last year. Press reports indicate that China has also provided Indonesia with soft loans for several infrastructure projects, including:

- The 110 megawatt Parit Baru Power Plant in West Kalimantan worth USD 94 million;
- The Jatigede Dam in West Java worth USD 169 million;
- The double track railway connecting Cirebon in West Java to Kroya in Central Java worth USD 85 million;
- The Suramadu Bridge project connecting Surabaya and Madura island in East Java worth USD 160 million;
- The Labuan Angin Power Plant in North Sumatra worth USD 155 million.
